

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Approval of Minutes of the May 3, 2000
Investment Committee, Open Session

ITEM NUMBER: 3

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: June 7, 2000

INFORMATION:

PRESENTER(S): Chairperson

Proposed minutes of the Investment Committee Meeting held in open session May 3, 2000 are submitted on the following pages.

**PROPOSED
MINUTES OF THE
INVESTMENT COMMITTEE MEETING
OF THE
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
MAY 3, 2000
OPEN SESSION
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA**

COMMITTEE MEMBERS PRESENT

Gary Lynes, Chairperson
Yvonne Gallegos Bodle
George Fenimore
Marty Mathiesen
Lillian Raffel
Emma Zink
Philip Angelides, State Treasurer
Kathleen Connell, State Controller
Curt Robinson, representing State Superintendent of Public Instruction,
Delaine Eastin
Annette Porini, representing State Director of Finance
Tim Gage

OTHER BOARD MEMBERS OR REPRESENTATIVES PRESENT

Jennifer DuCray Morrill
Chris Drevalas
Walter Barnes

STAFF PRESENT

James Mosman, Chief Executive Officer
Patrick Mitchell, Chief Investment Officer
Elleen Okada, Director of Investment Admin. and External Relations
Chris Waddell, Chief Counsel
Doug Wills, Staff Counsel
Ed Derman, DCEO, External Affairs and Program Development
Michelle Cunningham, Director of Fixed Income
Steven Tong, Director of Internal Equities
Janice Hester Amey, Principal Investment Officer
Richard Rose, Principal Investment Officer
Deborah Contini, Investment Officer
Trish Taniguchi, Investment Officer
Jim Hurley, Investment Officer
Mary Ann Avansino, Administrative Assistant

OTHERS PRESENT

Allan Emkin, Pension Consulting Alliance
Nori Gerardo Lietz, Pension Consulting Alliance

Terry Sander, Pension Consulting Alliance
Doug Le Bon, Pathway Capital Management
Toni Brown, Callan Associates Inc.
Michael Fredericks, Callan Associates Inc.
Janet Becker-Wold, Callan Associates Inc.
Jay Schenirer, Sacramento City Unified School District Board of Education
Anne Stupey, CFT
Mary Wells, Council for Responsible Public Investing
Edna White, CRTA
Lois Shive, CTA
Michael Green, CTA
Michael McMahon, San Mateo Employees Retirement Association, Trustee

A quorum being present, Chairperson Lynes called the open session meeting to order at 9:30 a.m.

I. **ANNOUNCEMENTS** (Item 2)

There were no announcements.

II. **APPROVAL OF MINUTES OF THE APRIL 5, 2000 INVESTMENT COMMITTEE, OPEN SESSION** (Item 3)

MOTION duly made by Ms. Porini, seconded by Ms. Zink and carried to approve the minutes of the April 3, 2000, Investment Committee, Open Session as presented.

III. **REPORT OF SUBCOMMITTEE ON CORPORATE GOVERNANCE** (Item 4)

Ms. DuCray Morrill reported that no action had been taken at the Subcommittee meeting.

BY CONSENSUS the Investment Committee accepted the report.

IV. **REAL ESTATE - SEMI-ANNUAL PERFORMANCE REPORT FOR PERIOD ENDING DECEMBER 31, 1999** (Item 5)

Mr. Mitchell requested that this item be rescheduled for the June meeting. He stated that although the report being presented was accurate, portions were not completed with the same methodology and in the same format as previous reports.

Mr. Angelides arrived at 9:45 a.m.

Dr. Connell arrived at the meeting at 9:47 a.m.

V. **REAL ESTATE – REVIEW OF POLICY AND PROCEDURE FOR COMINGLED FUNDS** (Item 11)

Mr. Mitchell presented the written existing real estate policy and procedure for commingled funds. He discussed the existing policy and procedure relating to screening incoming offers, the completion of due diligence, the role of the independent fiduciary, the role of the consultant.

VI. **REAL ESTATE – REAL ESTATE CONSULTANT CONTRACT** (Item 6)

Mr. Mitchell presented the written report reviewing real estate consultant contract issues. Discussion ensued regarding service being provided by Pension Consulting Alliance, E&Y Kenneth Leventhal, and Ziegler Company.

MOTION duly made by Mr. Fenimore, seconded by Ms. Zink and carried to direct staff to amend the real estate consultant contract to incorporate the changes and report the status to the Committee in June.

Chairperson Lynes recessed the meeting at 10:35 a.m.
The meeting reconvened at 10:45 a.m.

VII. **GENERAL – BENCHMARK POLICY MODIFICATION** (Item 7)

Mr. Mitchell and Mr. Emkin reviewed a Benchmark Policy and a Benchmark Modification Policy for the Committee's consideration. Mr. Mitchell and Mr. Emkin proposed the following changes to the written policies presented: Benchmark Policy 1, insert "Investment Committee" between "The" and "approved"; Benchmark Policy 3, change to "...will be reviewed by the Investment Committee on an annual basis..." and Benchmark Modification Policy 2C, change to "In the event that 2A or at least two (2) of the indicators referenced in 2B are evidenced...". Discussion ensued. Mr. Mitchell stated that a benchmark modification would directly affect the passively managed portfolio, but would not affect the actively managed portfolio.

MOTION duly made by Ms. Raffel. and seconded by Dr. Bodle to adopt a resolution to adopt the Benchmark Policy and Benchmark Modification Policy including the proposed changes: Benchmark Policy 1, insert "Investment Committee" between "The" and "approved"; Benchmark Policy 3, change to "...will be reviewed by the Investment Committee on an annual basis..."; and Benchmark Modification Policy 2C, change to "In the event that 2A or at least two (2) of the indicators referenced in 2B are evidenced...".

Discussion continued.

MOTION to call for the question duly made by Mr. Mathiesen. The motion failed.

AMENDED MOTION duly made by Ms. Raffel, and seconded by Mr. Angelides to adopt a resolution to adopt the Benchmark Policy and Benchmark Modification Policy including the proposed changes: Benchmark Policy 1, insert "Investment Committee" between "The" and "approved"; Benchmark Policy 3, change to "...will be reviewed by the Investment Committee on an annual basis..."; and Benchmark Modification Policy 2C, change to "In the event that 2A or at least three (3) of the indicators referenced in 2B are evidenced...".

Discussion continued.

Members of the public speaking in support of the motion were: Mr. Prescott, Ms. Stupey, Mr. Hawkins, Mr. Schenirer, Mr. Gonzales, and Ms. Logue. Ms. Shive presented the following statement from CTA for the record: "CTA has recommended a prudent divestiture of tobacco stock over the next two years. CTA already stands as a proponent of AB107 (Knox). The new benchmark policy would support those positions. CTA consequently supports the new benchmark policy."

MOTION to call for the question of consideration of the amended motion duly made by Dr. Bodle. A roll call vote was taken. Dr. Bodle voted no. Mr. Fenimore, Mr. Mathiesen, Ms. Raffel, Ms. Zink, Mr. Angelides, Dr Connell, Mr. Robinson, and Ms. Porini voted yes. The motion carried.

AMENDED MOTION roll call vote was taken. Dr. Bodle, Mr. Fenimore, Mr. Mathiesen, Ms. Raffel, Ms. Zink, Mr. Angelides, Dr. Connell, Mr. Robinson, and Ms. Porini voted yes. The motion carried.

VIII. **LEGISLATION** (Item 8)

Mr. Derman discussed AB 107, a tobacco divestment bill. No action was taken on this bill. Mr. Derman discussed SB 1928, a bill addressing foreign investments and national security concerns.

MOTION duly made by Dr. Bodle, seconded by Ms. Zink and carried to adopt an oppose position on SB 1928. Dr. Connell and Ms. Porini abstained.

IX. **FIXED INCOME – EVALUATION OF THE CURRENCY HEDGING PROGRAM** (Item 9)

Ms. Cunningham introduced Ms. Brown, Ms. Becker-Wold, and Mr. Fredericks who presented a comprehensive review of currency markets and of the CalSTRS Currency Hedging Program. The conclusion of the consultant was that the program has achieved its overall objective of protecting the passively managed non-dollar equity portfolio against a rising dollar.

X. **INTERNAL EQUITY – INTERNAL MANAGEMENT OF A PASSIVE MSCI EAFE PORTFOLIO** (Item 10)

Mr. Tong and Ms. Contini presented a written report and discussed key issues for consideration associated with internal management of a MSCI EAFE portfolio.

Chairperson Lynes recessed the meeting at 12:45 p.m.
The meeting reconvened at 1:30 p.m.

XI. **CREDIT ENHANCEMENT PROGRAM – ACTIVITY STATUS REPORT** (Item 12)

Mr. Rose presented the written report.

XII. **REAL ESTATE - ACTIVITY STATUS REPORT** (Item 13)

Mr. Mitchell and Mr. Hurley discussed the written report. They reported that the portfolio is at \$3.1 billion and has approximately a 94% occupancy.

XIII. **ALTERNATIVE INVESTMENTS - ACTIVITY STATUS REPORT** (Item 14)

Mr. Rose and Ms. Taniguchi reviewed the written report. Ms. Taniguchi reported on an investment of \$400 million made under delegation of authority in the Thomas H. Lee Equity Fund V, L. P.

XIV. **REPORT OF THE CHIEF INVESTMENT OFFICER** (Item 15)

Mr. Mitchell reviewed the written report and discussed return comparisons with other public funds. CalSTRS ranked in the 18th percentile for the 1-year period.

XVI. **DRAFT AGENDA FOR MAY INVESTMENT COMMITTEE MEETING** (Item 16)

Mr. Mitchell presented a draft agenda for the June Investment Committee meeting. Following discussion, Staff was directed to add items on Real Estate Consultant Contract Amendment, Real Estate Semi-annual Performance Report for Period Ending December 31, 1999, and to move the Alternative Investment Business Plan to July.

XVII. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC** (Item 17)

There were no further statements from the public.

XVIII. MOVE TO CLOSED SESSION

Chairperson Lynes recessed the meeting at 2:00 p.m. and reconvened directly into closed session.

XIX. ADJOURNMENT

Chairperson Lynes announced that while in closed session, the Committee discussed matters pertaining to investment decisions. There being no further business to conduct, Chairperson Lynes adjourned the meeting at 3:08 p.m.

James D. Mosman, Chief Executive Officer and Secretary to the
Teachers' Retirement Board

Gary Lynes, Chairperson